

Message Text

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SUBJECT: GOL REAFFIRMS POLICY OF FREE MOVEMENT OF CAPITAL

REF: A) MONROVIA 2855, B) MONROVIA 2969

1. SUMMARY:

IN DISCUSSING THE CAPITAL TRANSFER CRISIS WITH HIS ADVISORS, PRESIDENT TOLBERT HAS REPORTEDLY REAFFIRMED HIS GOVERNMENT'S COMMITMENT TO UNRESTRICTED TRANSFER OF CAPITAL. FORTUNATLEY, THE TRANSFER CRISIS HAS BEEN TEMPORARILY OVERCOME, AND THE NATIONAL BANK OF LIBERIA (NBL) HAS RESUMED HONORING CAPITAL TRANSFER REQUESTS BY THE COMMERCIAL BANKS UNDER NEW GROUND RULES. IT WOULD BE WISE, HOWEVER, FOR THE NBL TO STUDY THE RECOMMENDATIONS OF THE COMMERCIAL BANKS OFFERED BY CHAIRMAN OF BANK OF LIBERIA DENNIS IN COPING WITH ANY FUTURE TRANSFER CRISIS. END SUMMARY.

2. ON OR ABOUT APRIL 24 PRESIDENT TOLBERT REPORTEDLY REAFFIRMED HIS GOVERNMENT'S COMMITMENT TO FREE MOVEMENT OF CAPITAL AT A MEETING TO DISCUSS THE TRANSFER CRISIS AT THE EXECUTIVE MANSION WITH FINANCE MINISTER PHILLIPS, GOVERNOR GREENE AND DEPUTY LIMITED OFFICIAL USE

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GOVERNOR SMITH OF THE NATIONAL BANK OF LIBERIA (NBL) AND CHAIRMAN OF THE BANK OF LIBERIA DENNIS, REPRESENTING THE COMMERCIAL BANKS. THE PRESIDENT WAS REPORTEDLY DISTURBED THAT THE FINANCE MINISTER HAS NOT INFORMED HIM ABOUT THIS MATTER. PRESIDENT TOLBERT DIRECTED GREENE AND SMITH TO HAVE NBL MAINTAIN SUFFICIENT LIQUIDITY TO PERMIT FREE TRANSFER OF FUNDS.

3. IT WAS DENNIS, THE PRESIDENT'S NEPHEW, WHO HAD FIRST BRIEFED THE PRESIDENT ABOUT THE TRANSFER CRISIS. AT THE PRESIDENT'S REQUEST, DENNIS IN CONSULTATION WITH THE COMMERCIAL BANK MANAGERS WROTE A LETTER TO THE PRESIDENT ON APRIL 21 CRITICIZING THE NBL'S HANDLING OF THE TRANSFER PROBLEM AND EXPRESSING THE BANKS' CONCERN THAT THE NBL'S ACTIONS WERE THE FIRST STEP TOWARD ESTABLISHMENT OF EXCHANGE CONTROLS. DENNIS MADE THE FOLLOWING RECOMMENDATIONS IN HIS LETTER:

A. NBL SHOULD TAKE ACTION TO IMPROVE ITS LIQUIDITY SO THAT UNIMPEDED CAPITAL TRANSFERS MAY RESUME FORTHWITH;

B. IF CAPITAL FLOWS ARE TO BE RESTRAINED, NBL SHOULD PUBLISH CLEAR REGULATIONS APPLICABLE TO ALL SECTORS OF THE ECONOMY, AND NOT JUST TO THE COMMERCIAL BANKS;

C. NBL SHOULD PAY COMPETITIVE INTEREST RATE ON COMMERCIAL BANK DEPOSITS IN EXCESS OF THE RESERVE REQUIREMENT.

4. ON APRIL 27 FINANCE MINISTER PHILLIPS MET WITH THE LIBERIA BANKERS ASSOCIATION AND ASSURED THE ASSOCIATION'S MEMBERS THAT THE GOVERNMENT HAD NO INTENTION OF RESTRICTING MOVEMENT OF CAPITAL. HE GAVE THEM A WRITTEN STATMENT, THE PERTINENT POINTS OF WHICH ARE AS FOLLOWS:

A. NBL HAD TO DEFER ACTION ON TRANSFER REQUESTS BECAUSE LIMITED OFFICIAL USE

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THEY INVOLVED EXCEPTIONALLY LARGE SUMS IN EARLY APRIL.

B. NBL ACTION HAD RESULTED IN FALSE RUMORS THAT "LIBERIA'S LIBERIA POLICY, WHICH PERMITS FREE MOVEMENT OF CAPITAL, IS BEING UNDERMINED AND THAT EXCHANGE CONTROLS WERE BEING INSIDIOUSLY INTRODUCED".

C. GOL IS TAKING STEPS TO PROVIDE APPROPRIATE SHORT-TERM INVESTMENTS IN LIBERIA FOR TEMPORARY SURPLUS FUNDS OF COMMERCIAL BANKS ON DEPOSIT WITH NBL. (AT PRESENT COMMERCIAL BANKS DO NOT RECEIVE INTEREST ON SURPLUS DEPOSITS WITH NBL.)

D. SHOULD TRANSFER CRISIS OCCUR AGAIN, GOL WILL INVITE BANKS TO ASSIST IN RESOLVING DIFFICULTIES AND WILL NOTIFY BANKS WELL IN ADVANCE WHAT GOVERNMENT PROPOSES TO DO WITH EXPECTATION BANKS WILL UNDERSTAND AND COOPERATE.

5. COMMENT:

THE TRANSFER PROBLEM WAS THE FIRST REAL TEST THAT THE YOUNG

MANAGEMENT OF NBL FACED. IT FAILED BECAUSE (1) BY INITIALLY
"STONEWALLING" IT LOST THE CONFIDENCE OF THE BANKS AND CAUSED
RUMORS TO SPREAD, AND (2) BY NOT ANTICIPATING NEED FOR SUFFICIENT
LIQUIDITY IT HAD TO DEFER CAPITAL TRANSFERS. FORTUNATELY, THE CRISIS
HAS BEEN TEMPORARILY OVERCOME, AND THE NBL HAS RESUMED HONORING
CAPITAL TRANSFER REQUESTS BY THE COMMERCIAL BANKS UNDER NEW
GROUND RULES. TI WOULD BE WISE, HOWEVER, FOR THE NBL TO
STUDY THE RECOMMENDATIONS OF THE COMMERCIAL BANKS OFFERED
BY DENNIS IN COPING WITH ANY FUTURE TRANSFER CRISIS.
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